

Exercise 13

Match each term or concept with the appropriate definition or explanation.

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|----------------------------------|---|
| 1 Progressive tax | a Taxes that are paid directly to the government by the entity being taxed, such as taxes on income, property, wealth or profits |
| 2 Relative poverty | b The ratio of the tax paid over the tax base (where the tax base is what is being taxed, for example it can be income or expenditures) |
| 3 Average tax rate (ATR) | c Fairness |
| 4 Equity | d A tax where the ATR remains constant as the tax base increases (so that $ATR = MTR$) |
| 5 Proportional tax | e The ratio of income (or consumption) shares of the richest (top) fifth to the poorest (bottom) fifth of the population |
| 6 Income redistribution policies | f Increases when income inequality ratios increase |
| 7 Direct taxes | g A tax where the average tax rate increases as the tax base increases (so that $MTR > ATR$) |
| 8 Inequality ratio | h Policies that aim at redistributing income to achieve greater levels of equity which include transfer payments (for example pensions, unemployment benefits and child care support), subsidized or direct provision of basic merit goods and services, a progressive tax system, etc. |

Exercise 14

Explain three causes and three consequences of rising poverty.

Exercise 15

Evaluate policies that may be adopted to promote greater equity in the distribution of income.

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Exercise 16

The following table contains information about the income tax system in a country.

Income bracket	Tax rate
0 – €5,000	0 %
€5,001 – €15,000	5 %
€15,001 – €30,000	15 %
€30,001 – €50,000	30 %
€50,000 +	40 %

Assume three individuals, Sara, Rebekah and Sanjeet, have annual income levels and expenditures on goods and services as presented opposite.

	Annual income level	Annual spending on goods and services
Sara	€16,000	€15,000
Rebekah	€32,000	€30,000
Sanjeet	€48,000	€40,000

- Calculate the income tax that each individual has to pay.
- Determine the ATR of each and compare it with her MTR.
- Provide two ways of explaining that the income tax system in this country is progressive.
- Assume that the amount paid by each individual on goods and services does not include taxes. Calculate the amount of indirect tax each will pay if it equals 20 % of her spending on goods and services.
- Express the amount of indirect tax paid by each as a proportion of her income.